



July 2015

Amendments to FRS 100

Application of Financial Reporting Requirements

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Financial Reporting Council

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*Application of Financial Reporting
Requirements*

Amendments to FRS 100 Application of Financial Reporting Requirements is an amendment to an accounting standard. It is issued by the Financial Reporting Council in respect of its application in the United Kingdom and promulgated by the Institute of Chartered Accountants in Ireland in respect of its application in the Republic of Ireland.

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Summary

- (i) With effect from 1 January 2015 the Financial Reporting Council (FRC) revised financial reporting standards in the United Kingdom and Republic of Ireland. The revisions fundamentally reformed financial reporting, replacing the extant standards with five Financial Reporting Standards:
 - (a) FRS 100 *Application of Financial Reporting Requirements*;
 - (b) FRS 101 *Reduced Disclosure Framework*;
 - (c) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*;
 - (d) FRS 103 *Insurance Contracts*; and
 - (e) FRS 104 *Interim Financial Reporting*.

The FRC has also issued FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* to support the implementation of the new micro-entities regime.

As a result of the implementation of the new Accounting Directive these amendments to FRS 100:

- (a) make changes to the financial reporting framework to reflect the new financial reporting standard for micro-entities; and
 - (b) make limited other amendments for compliance with company law.
- (ii) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.
 - (iii) In meeting this objective, the FRC aims to provide succinct financial reporting standards that:
 - (a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
 - (b) reflect up-to-date thinking and developments in the way entities operate and the transactions they undertake;
 - (c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;
 - (d) promote efficiency within groups; and
 - (e) are cost-effective to apply.

Amendments to FRS 100

- (iv) The FRC issued a Consultation Document *Accounting Standards for small entities – Implementation of the EU Accounting Directive* in September 2014 which, inter alia, consulted on the future of accounting standards for small entities and other amendments likely to be necessary to accounting standards as a result of the implementation of the Accounting Directive. This was followed by FRED 60 *Draft amendments to FRS 100 and FRS 101* which was issued in February 2015. These amendments take into account the feedback from both the earlier consultation and FRED 60.
- (v) These amendments to FRS 100 reflect the revised framework of accounting standards, in particular the withdrawal of the *Financial Reporting Standard for Smaller Entities (effective*

*January 2015) (FRSSE) and the introduction of a new accounting standard for micro-entities, FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*.*

Amendments to FRS 100 *Application of Financial Reporting Requirements*

Amendments to FRS 100

- 1 The following paragraphs set out the amendments to FRS 100 *Application of Financial Reporting Requirements* (deleted text is struck through, inserted text is underlined).
- 2 Paragraph 3 is amended as follows:
 - 3 The terms **Accounting Directive**, **Act**, **date of transition**, **EU-adopted IFRS**, **financial institution**, **FRS 100**, **FRS 101**, **FRS 102**, ~~FRSSE~~**FRS 105**, **IAS Regulation**, **IFRS**, **individual financial statements**, **public benefit entity**, **qualifying entity**, ~~Regulation~~**small entity** and **SORP** are defined in the glossary included as Appendix I to this FRS.
- 3 Paragraph 4 and footnotes 2 and 5 are amended as follows (footnotes 3 and 4 are not amended and are not reproduced here):
 - 4 Financial statements (whether consolidated financial statements or individual financial statements) that are within the scope of this FRS, and that are not required by the IAS Regulation or other legislation or regulation to be prepared in accordance with EU-adopted IFRS, must be prepared in accordance with the following requirements:
 - (a) If the financial statements are those of an entity that is eligible to apply ~~FRS 105~~**the FRSSE**², they may be prepared in accordance with that standard.
 - (b) If the financial statements are those of an entity that is not eligible to apply ~~FRS 105~~**the FRSSE**, or of an entity that is eligible to apply ~~FRS 105~~**the FRSSE** but chooses not to do so, they must³ be prepared in accordance with FRS 102, EU-adopted IFRS⁴ or, if the financial statements are the individual financial statements of a qualifying entity, FRS 101⁵.
 - 2 The eligibility criteria for applying ~~FRS 105~~**the FRSSE** are set out in legislation and paragraph 8 of FRS 105~~the FRSSE~~. In establishing whether the eligibility criteria have been met is that the entity must be 'small' as defined in company law. Turnover and balance sheet total shall~~should~~ be measured in accordance with ~~FRS 105~~**the FRSSE** for the purposes of establishing whether the entity is 'small'; the measurement of turnover and balance sheet total in accordance with FRS 101 or FRS 102 need not be considered.
 - 5 Individual accounts that are prepared by a company in accordance with FRS 101, ~~or FRS 102~~ or FRS 105 are Companies Act individual accounts (section 395(1)(a) of the Act), whereas individual accounts that are prepared by a company in accordance with EU-adopted IFRS are IAS individual accounts (section 395(1)(b) of the Act).
- 4 Paragraph 5 is amended as follows:
 - 5 If an entity's financial statements are prepared in accordance with ~~the FRSSE or FRS 102~~, SORPs will apply in the circumstances set out in that FRS~~these standards~~.
- 5 Paragraph 6 is amended as follows (footnote 6 is not amended and is not repeated here):
 - 6 When a SORP applies, the an entity, other than a small entity applying the small entities regime in FRS 102, should~~shall~~ state in its financial statements the title of the SORP and whether its financial statements have been prepared in accordance with the SORP's provisions that are currently in effect⁶. In the event of a departure from those provisions, the entity should~~shall~~ give a brief description of how the financial statements depart from the recommended practice set out in the SORP, which shall include:

- (a) for any treatment that is not in accordance with the SORP, the reasons why the treatment adopted is judged more appropriate to the entity's particular circumstances; and
- (b) brief details of any disclosures recommended by the SORP that have not been provided, and the reasons why they have not been provided.

A small entity applying the small entities regime in FRS 102 is encouraged to provide these disclosures.

6 Paragraph 9 is amended as follows:

- 9 Where an entity prepares its financial statements in accordance with FRS 101, ~~or FRS 102 or the FRSSE~~, it shall include a statement of compliance in the notes to the financial statements in accordance with the requirements set out in the relevant standard unless it is a small entity applying the small entities regime in FRS 102, in which case it is encouraged to include a statement of compliance in the notes to the financial statements.

7 Paragraph 10 is amended as follows:

- 10 An entity shall apply this FRS for accounting periods beginning on or after 1 January 2015~~6~~. Early application of this FRS is permitted, providing an entity also applies the edition of FRS 101, FRS 102 and FRS 105 effective for accounting periods beginning on or after 1 January 2016 and is subject to the early application provisions set out in FRS 101, FRS 102 and the FRSSE (effective January 2015) those standards. An entity choosing not to apply these amendments to accounting periods beginning before 1 January 2016 shall not adopt the associated amendments made to FRS 101, FRS 102 nor FRS 105 to accounting periods beginning before 1 January 2016. If an entity applies this FRS before 1 January 2016~~5~~ it shall disclose that fact, unless the entity is a micro-entity or a small entity. A small entity is encouraged to provide this disclosure.

8 Paragraph 11(b) is amended as follows:

- 11(b) A qualifying entity transitioning to FRS 101 shall, unless it is applying EU-adopted IFRS prior to the date of transition (see paragraph 12), apply the requirements of paragraphs 6 to 33 of IFRS 1 as adopted in the EU including the relevant appendices except for the requirement of paragraphs 6 and 21 to present an opening statement of financial position at the date of transition; references to IFRS~~s~~ in IFRS 1 are interpreted to mean EU-adopted IFRS as amended in accordance with paragraph 5(b) of FRS 101.

9 Paragraph 11(d) is amended as follows:

- 11(d) An entity transitioning to ~~the FRSSE~~FRS 105 shall apply the transitional provisions set out in ~~the FRSSE~~FRS 105.

10 Paragraph 15A is inserted as follows:

- 15A The *Financial Reporting Standard for Smaller Entities* (effective January 2015) (FRSSE) is superseded on the early application of the amendments set out in *Amendments to FRS 100* (and the related amendments to other accounting standards, particularly FRS 102 and FRS 105) issued in July 2015 and the early application of *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) and is withdrawn for accounting periods beginning on or after 1 January 2016.

11 Paragraph 16 and the sub-heading *Consequential amendments to the FRSSE* preceding it are deleted.

Amendments to Application Guidance: The Interpretation of Equivalence

12 The following paragraphs set out the amendments to *Application Guidance: The Interpretation of Equivalence* (deleted text is struck through, inserted text is underlined).

13 Paragraph AG1 is amended as follows:

AG1 Section 401 of the Act exempts, subject to certain conditions, an intermediate parent from the requirement to prepare consolidated financial statements where its parent is not established under the law of an EEA state. The exemption is conditional on the company and all of its subsidiaries being included in consolidated financial statements for a larger group drawn up to the same date, or an earlier date in the same financial year, and those financial statements must be drawn up:

- (a) in accordance with, or in a manner that is equivalent to, the Accounting Directive (Section 401(2)(b)(i) and (ii));
- (b) in accordance with EU-adopted IFRS (Section 401(2)(b)(iii)); or
- (c) in accordance with accounting standards which are equivalent to EU-adopted IFRS, as determined in accordance with the EU mechanism (see paragraph AG7) (Section 401(2)(b)(iv)).

Section 401 states that:

- ~~(2) Exemption is conditional upon compliance with all of the following conditions—~~
 - ~~(a) the company and all of its subsidiary undertakings must be included in consolidated accounts for a larger group drawn up to the same date, or to an earlier date in the same financial year, by a parent undertaking;~~
 - ~~(b) those accounts and, where appropriate, the group's annual report, must be drawn up—~~
 - ~~(i) in accordance with the provisions of the Seventh Directive (83/349/EEC) (as modified, where relevant, by the provisions of the Bank Accounts Directive (86/635/EEC) or the Insurance Accounts Directive (91/674/EEC)), or~~
 - ~~(ii) in a manner **equivalent** to consolidated accounts and consolidated annual reports so drawn up; ... (emphasis added)~~

14 Paragraph AG4 is amended as follows and footnote 10 is deleted (subsequent footnotes are renumbered):

AG4 Use of the exemption in section 401(2)(b)(ii) requires an analysis of a particular set of consolidated financial statements to determine whether they are drawn up in a manner equivalent to consolidated financial statements that are drawn up in accordance with the ~~Seventh~~ Accounting Directive⁴⁰. This Application Guidance aims to assist entities in adopting a consistent approach to this issue. In the absence of this guidance, companies and their auditors might feel obliged to take an overly cautious approach in response to uncertainty about whether exemptions can be used.

15 Paragraph AG5 is amended as follows:

AG5 It is generally accepted that the reference to equivalence in section 401(2)(b)(ii) of the Act does not mean compliance with every detail of the ~~Seventh~~ Accounting Directive. When assessing whether consolidated financial statements of a higher non-EEA parent are drawn up in a manner equivalent to consolidated financial

statements drawn up in accordance with the ~~Seventh~~Accounting Directive, it is necessary to consider whether they meet the basic requirements of the ~~Fourth and Seventh~~Accounting Directives; in particular the requirement to give a true and fair view, without implying strict conformity with each and every provision. A qualitative approach is more in keeping with the deregulatory nature of the exemption than a requirement to consider the detailed requirements on a checklist basis.

- 16 Paragraph AG6 is amended as follows (what was sub-paragraph (e) now continues from the introductory clause):

AG6 The consequences of the exemptions in section 401(2)(b) and adopting the principle in paragraph AG5 in relation to section 401(2)(b)(ii) are that consolidated financial statements of the higher parent will meet the exemption or the test of equivalence in the ~~Seventh~~Accounting Directive if they are intended to give a true and fair view and:

- (a) ~~give a true and fair view and comply~~are prepared in accordance with FRS 102;
- (b) are prepared in accordance with EU-adopted IFRS;
- (c) are prepared in accordance with IFRS, subject to the consideration of the reasons for any failure by the European Commission to adopt a standard or interpretation; ~~and~~
- (d) are prepared using other GAAPs which are closely related to IFRS, subject to consideration of the effect of any differences from EU-adopted IFRS.

Consolidated financial statements of the higher parent prepared using:

- ~~(e) other GAAPs or the IFRS for SMEs should be assessed for equivalence with the ~~Seventh~~Accounting Directive based on the particular facts, including the similarities to and differences from the ~~Seventh~~Accounting Directive (see paragraph AG7); and~~
- ~~(f) the IFRS for SMEs shall be assessed for equivalence with the ~~Seventh~~ Directive where the following factors are considered:~~
 - ~~(i) applying the disclosure requirements for extraordinary items;~~
 - ~~(ii) requiring additional disclosures for financial liabilities that were held at fair value but were neither held as part of a trading portfolio nor a derivative;~~
 - ~~(iii) shortening the presumed life of goodwill from 10 to not exceeding five years, where an entity is unable to make a reliable estimate of the useful life;~~
 - ~~(iv) recognising negative goodwill in the income statement only when it meets the definition of a realised profit;~~
 - ~~(v) replacing the prohibition on reversal of impairment losses of goodwill with a requirement to reverse the loss if, and only if, the reasons for the impairment cease to apply; and~~
 - ~~(vi) removing the requirement for unpaid called up share capital to be recognised as an offset to equity.~~

- 17 Paragraph AG7 is amended as follows (footnotes 11 and 12 are deleted and subsequent footnotes renumbered sequentially):

AG7 A mechanism to determine the equivalence of the Generally Accepted Accounting Principles (GAAP) from third countries was established in 2007.

~~Subsequently~~Accordingly, the European Commission has adopted a Decision and Regulation which identified as equivalent to IFRS the following: US GAAP, the Japanese GAAP, and accepted financial statements using the GAAP of China, Canada, India South Korea within the EU on a temporary basis until 31 December 2011. In accordance with relevant EU legislation the European Commission has been updating the European Parliament at regular intervals on the progress made by these countries with their respective programmes to converge their GAAP with IFRS¹⁴.

This decision was amended on 11 April 2012¹² to state that from 1 January 2012, with regard to annual consolidated financial statements and half yearly consolidated financial statements, the following standards shall be considered as equivalent to IFRS adopted pursuant to Regulation (EC) No 1606/2002:

- ~~(a) GAAP of the People's Republic of China;~~
- ~~(b) GAAP of Canada; and~~
- ~~(c) GAAP of the Republic of Korea.~~

<u>GAAP</u>	<u>Applicable from</u>
<u>GAAP of Japan</u>	<u>1 January 2009</u>
<u>GAAP of the United States of America</u>	<u>1 January 2009</u>
<u>GAAP of the People's Republic of China</u>	<u>1 January 2012</u>
<u>GAAP of Canada</u>	<u>1 January 2012</u>
<u>GAAP of the Republic of Korea</u>	<u>1 January 2012</u>

Further, third country issuers shall be permitted to prepare their annual consolidated financial statements and half-yearly consolidated financial statements in accordance with the Generally Accepted Accounting Principles of the Republic of India for financial years starting before 1 January 2015. For reporting periods beginning on or after 1 January 2015, in relation to GAAP of the Republic of India, equivalence should be assessed on the basis of the particular facts.

18 Paragraph AG10 is amended as follows:

AG10 Disclosure exemptions for subsidiaries are permitted where the relevant disclosure requirements are met in the consolidated financial statements, even where the disclosures are made in aggregate or in an abbreviated form, or in relation to intra-group balances, those intra-group balances have been eliminated on consolidation. If, however, no disclosure is made in the consolidated financial statements on the grounds of materiality, the relevant disclosures should be made at the subsidiary level if material in those financial statements.

Amendments to Appendix I: Glossary

19 The following glossary terms and definitions, and footnote 18 (subsequent footnotes will be renumbered sequentially), are deleted:

FRSSE	The extant version¹⁸ of the <i>Financial Reporting Standard for Smaller Entities</i>.
Regulations	The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)

¹⁸ ~~At the date of issue of this FRS, the extant version of the FRSSE is the *Financial Reporting Standard for Smaller Entities* (effective April 2008). The *Financial Reporting Standard for Smaller Entities* (effective January 2015) will replace it as the extant standard from 1 January 2015.~~

20 The following glossary terms and definitions are inserted in alphabetical order:

<u>Accounting Directive</u>	<u>Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013</u>
<u>FRS 105</u>	<u>FRS 105 <i>The Financial Reporting Standard applicable to the Micro-entities Regime</i></u>
<u>small entity</u>	(a) <u>A company meeting the definition of a small company as set out in section 382 or 383 of the Act and not excluded from the small companies regime by section 384;</u> (b) <u>an LLP qualifying as small and not excluded from the small LLPs regime, as set out in LLP Regulations; or</u> (c) <u>any other entity that would have met the criteria in (a) had it been a company incorporated under company law.</u>

Amendments to Appendix II: Note on Legal Requirements

- 21 The following paragraphs set out the amendments to Appendix II: *Note on Legal Requirements* (deleted text is struck through, inserted text is underlined).
- 22 Paragraph A2.5 is amended as follows (footnote 21 is not amended and is not reproduced here):
- A2.5 All other entities, except those that are eligible and choose to apply FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*~~the *Financial Reporting Standard for Smaller Entities* (effective January 2015) (FRSSE)~~, must apply either FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, EU-adopted IFRS or, for financial statements that are the individual financial statements of a qualifying entity, FRS 101 *Reduced Disclosure Framework*²¹.
- 23 Paragraphs A2.8 to A2.12 and footnotes 22, 23 and 24 are deleted. Subsequent footnotes will be renumbered sequentially.
- 24 A new paragraph A2.8 is inserted as follows:
- A2.8 *The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008* (SI 2008/409) set out the legal framework for both the micro-entities regime and the small companies regime, with the eligibility criteria for both set out in Part 15 of the Act. FRS 105 and FRS 102 contain notes on legal requirements applicable to these regimes.

Amendments to Appendix IV: Republic of Ireland (RoI) Legal References

- 25 Appendix IV: *Republic of Ireland (RoI) Legal References* is deleted and will be updated as appropriate for both the Companies Act 2014 and the Irish legislation implementing the EU Accounting Directive once the latter has been made. This will be included in the next edition of FRS 100.

Approval by the FRC

Amendments to FRS 100 Application of Financial Reporting Requirements was approved for issue by the Board of the Financial Reporting Council on 1 July 2015, following its consideration of the Accounting Council's Advice.

The Accounting Council's Advice to the FRC to issue Amendments to FRS 100

Introduction

- 1 This report provides an overview of the main issues that have been considered by the Accounting Council in advising the Financial Reporting Council (FRC) to issue *Amendments to FRS 100 Application of Financial Reporting Requirements* incorporating the Council's advice following the Consultation Document *Accounting standards for small entities – Implementation of the EU Accounting Directive* and FRED 60 *Draft amendments to FRS 100 and FRS 101*.
- 2 The FRC, in accordance with the *Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012 (SI 2012/1741)*, is a prescribed body for issuing accounting standards in the UK. The *Foreword to Accounting Standards* sets out the application of accounting standards in the Republic of Ireland.
- 3 In accordance with the *FRC Codes and Standards: procedures*, any proposal to issue, amend or withdraw a code or standard is put to the FRC Board with the full advice of the relevant Councils and/or the Codes & Standards Committee. Ordinarily, the FRC Board will only reject the advice put to it where:
 - (a) it is apparent that a significant group of stakeholders has not been adequately consulted;
 - (b) the necessary assessment of the impact of the proposal has not been completed, including an analysis of costs and benefits;
 - (c) insufficient consideration has been given to the timing or cost of implementation; or
 - (d) the cumulative impact of a number of proposals would make the adoption of an otherwise satisfactory proposal inappropriate.
- 4 The FRC has established the Accounting Council as the relevant Council to assist it in the setting of accounting standards.

Advice

- 5 The Accounting Council is advising the FRC to issue *Amendments to FRS 100 Application of Financial Reporting Requirements*.
- 6 The Accounting Council advises that these proposals will update the framework of accounting standards and maintain consistency of accounting standards with company law.
- 7 The Accounting Council's Advice to the FRC to issue FRS 100 *Application of Financial Reporting Requirements* was set out in the standard. The Accounting Council's Advice to the FRC in respect of these amendments will be included in the revised FRS 100.

Background

- 8 The new EU Accounting Directive (Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013) is being implemented in the UK and Republic of Ireland. In doing so there are changes to company law to reflect new requirements and, where considered appropriate, to take advantage of new options that are available. Accounting standards are developed within the context of company law and amendments are also required to accounting standards.

- 9 In September 2014, the FRC issued a Consultation Document *Accounting standards for small entities – Implementation of the EU Accounting Directive*¹ (the Consultation Document), outlining its proposal that the *Financial Reporting Standard for Smaller Entities* (FRSSE) would be withdrawn. A small number of amendments to FRS 100 would also be necessary to maintain consistency with company law. The Accounting Council considered the responses to the Consultation Document in developing FRED 60 *Draft amendments to FRS 100 and FRS 101*. It has also considered the responses to FRED 60, which was issued in February 2015, in developing its advice on these amendments.

Objective

- 10 In developing its advice to the FRC, the Accounting Council was guided by the overriding objective to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.
- 11 In meeting this objective, the FRC aims to provide succinct financial reporting standards that:
- (a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
 - (b) reflect up-to-date thinking and developments in the way entities operate and the transactions they undertake;
 - (c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;
 - (d) promote efficiency within groups; and
 - (e) are cost-effective to apply.

Small entities regime

- 12 In the Consultation Document and FRED 60 the FRC proposed that the FRSSE should be withdrawn and that it should be replaced with:
- (a) a new standard for micro-entities, FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*; and
 - (b) for small entities ineligible for or choosing not to apply the micro-entities regime, it should be replaced with a new Section 1A *Small Entities* within FRS 102.

This proposal was supported by respondents and the Accounting Council advises that the FRSSE is withdrawn, with consequential amendments made to FRS 100 *Application of Financial Reporting Requirements* to set out the revised framework.

Other minor amendments

- 13 The Accounting Council advises that other minor amendments are made to FRS 100 for compliance with company law. This principally relates to the *Application Guidance: The Interpretation of Equivalence*.
- 14 One respondent to FRED 60 requested clarification relating to the meaning of equivalent disclosures included in the consolidated financial statements in relation to intra-group balances eliminated on consolidation. The Accounting Council agreed that this could

¹ Available on the FRC website (www.frc.org.uk).

usefully be clarified whilst amendments were being made to the *Application Guidance: The Interpretation of Equivalence* and advises that it is made clear that, provided relevant disclosures have been made in the consolidated financial statements, the exemption is permitted when intra-group balances have been eliminated on consolidation. This is, of course, subject to any disclosures that are required by law.

Effective date

- 15 The Accounting Council advises that the amendments to FRS 100 arising from the implementation of the new Accounting Directive are effective for accounting periods beginning on or after 1 January 2016, with early application available providing an entity also applies the edition of FRS 101, FRS 102 or FRS 105 effective for accounting periods beginning on or after 1 January 2016 and subject to the early application provisions set out in those standards.

Approval of this Advice

- 16 This advice to the FRC was approved by the Accounting Council on 4 June 2015.



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